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‘Above the Fray’: Interests, Discourse and Legitimacy in the Audit Field

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Abstract

Legitimacy is a crucial concern for the institutional field of auditing, given its reliance on perceived legitimacy for its political mandate and license to practice, in addition to its wider credibility and trust amongst stakeholders such as clients, investors and the public. In this paper, we explore the role of interest-discourse in the discursive strategies of legitimization in the audit field. We develop an Ethnomethodologically-informed Discourse Analysis (EDA) perspective that enables us to theorise how institutional actors account for interests as a means for de-legitimization and re-legitimization. We ask: how do institutional actors in the audit field establish who or what is ‘above the fray’ and who or what is ‘interested’? We illustrate our argument by examining how the ‘Big Four’ audit firms handled a ‘crisis of legitimacy’ in the accountancy profession following the recent financial crisis, focussing in particular on a Parliamentary inquiry into market concentration in the audit industry in the UK. First, we show how de-legitimization is achieved through the discursive strategies of stake attribution, stake interrogation and stake mis-alignment. Second, we show how re-legitimization is achieved through the discursive strategies of stake inoculation, stake confession, stake alignment and stake transcendence. We conclude by examining the implications of the discursive processes we have studied for the future of the audit field in the UK.

Keywords

Audit, Discourse Analysis, Institutional Theory, Interests, Legitimacy, Stake.

“...any theory that denies the reality of purposive, interest-driven ... behavior is limited in the range of problems to which it is applicable” (DiMaggio, 1988: 5)

Introduction

Interests are at the heart of contemporary notions of what it means to be a ‘profession’. The idea of ‘professionalism’ – deeply embedded not only in accounting but also in professions such as the law and medicine - is founded on the notion that actors are able to transcend their vested sectional or personal interests in pursuit of higher goals or values, such as truth, knowledge, reason, client well-being, or more general notions of ‘societal benefit’ or the ‘public good’ (Abbott, 1988). To borrow an idiom, professions are expected to be ‘above the fray’ and to act in a ‘disinterested’ fashion. Judges are expected not to accept bribes from defendants or purposefully acquit their family, friends or associates. Doctors are expected not to prescribe medicines based on ‘kick-backs’ from pharmaceutical companies. Similarly, accountants are expected to not get too ‘cosy’ with the clients they are auditing or to help their clients ‘fiddle’ the books or evade tax. Indeed, the political settlement that offers many professions an oligopolistic position, jurisdictional protection and a quasi-autonomous status is founded on the notion that professions can, through self-regulation, ensure that ‘vested interests’ do not unduly influence their work (Freidson 2001; Larson 1993). To avoid being subject to the ‘full force’ of open markets, or governmental intervention and regulation, professions are expected to demonstrate that they can effectively self-manage any vested interests that could ‘distort’ the achievement of their purported higher goal, value or purpose.

How, then, are ‘interests’ – and their role in professions such as accountancy – monitored and evaluated? Our focus here is on how interests are ‘worked up’ and ‘worked on’ in discourse (Woolgar, 1981; Callon & Law, 1982; Gilbert & Mulkay, 1984; Potter, 1996), namely through the production of accounts. We are guided by Woolgar’s (1981) observation that “the construction and use of interests... demands treatment as a phenomenon in its own right” (p. 371). We develop an approach to discourse analysis informed by ethnomethodology’s concern with members’ own accounting procedures, which we call Ethnomethodologically-informed Discourse Analysis; EDA for short. EDA, we propose, advances existing work on the relationship between interests, discourse and institutional action by developing a framework for understanding interests as a *discourse topic* employed by institutional

actors to establish (or undermine) the legitimacy of specific actions or events. Thus, we advance existing approaches to studying interests as an analytic resource for social scientific explanation by turning this ‘resource’ into a ‘topic’ of study in its own right (Woolgar, 1981).

Our central aim is to show how the discourse of interests is central to the institutional work concerned with building, disrupting and repairing the legitimacy of the audit field. We focus on the ‘crisis of legitimacy’ faced by the accountancy field following the recent financial crisis in the UK. The British audit industry, which is dominated by four major accounting partnerships (the “Big Four”), have been recently subject to parliamentary scrutiny regarding anti-competitive behaviour, protectionism and conflicts of interest. We analyse the discursive strategies employed in the questioning of politicians and testimonies from senior executives of the “Big Four” accounting firms to a House of Lords enquiry into market concentration in the British audit industry.

Our analysis reveals the role of interest discourse in two distinct (but parallel) processes. First, we show how de-legitimation occurred through three discursive strategies: attributing a stake to the Big Four (stake attribution), questioning the stake of Big Four (stake interrogation) and portraying the Big Four as not properly aligned with ‘legitimate’ interests (stake mis-alignment). Second, we show how re-legitimation occurred through four discursive strategies: claims by the Big Four to have no stake or vested interest in a situation (stake inoculation), claims to having a stake or interest in the situation (stake confession), claims to being properly aligned with ‘legitimate’ interests (stake alignment) and claims to transcending or superseding vested interests through attachment to higher goals or values, such as ‘professional ideals’ (stake transcendence). Definitions of these terms are given in Table 1 below. Finally, we conclude by discussing the importance of this interest-discourse for the institutional field itself, in particular State intervention in the audit field in the UK and beyond. We conclude that interest discourse shaped the possibility and desirability of different courses of action, such as new forms of state intervention in the accounting profession.

Legitimacy, Interests and Professions

Legitimacy is a master concept for institutional theory; it has been defined as “a generalized perception or assumption that the actions of an entity are desirable,

proper, or appropriate within socially constructed systems of norms, values, beliefs and definitions” (Suchman, 1995: 574). De-legitimatization can be understood as the process of questioning, eroding or undermining the legitimacy of a particular institution (Suddaby & Greenwood, 2005; Vaara & Monin, 2010). Re-legitimization, as a counterpoint, can be understood as the process of defending, repairing or maintaining the legitimacy of an institution under actual or potential threat of de-legitimization.

For institutional theorists, the desire for legitimacy is understood as a central driving force behind organizational action (Oliver, 1991: 149; Deephouse & Suchman, 2008). While not all institutions require legitimacy to the same degree, for organizations in ‘tightly coupled’ fields with a high degree of dependency on the support and resources of other actors such as government, legitimacy is a crucial issue (Oliver, 1991). For accounting in particular, as a “legitimizing institution” itself (Richardson, 1987), the legitimacy of the profession itself is a central concern. However, while the accounting literature has paid much attention to the role of accountancy in establishing legitimacy (Nahapiet, 1988; Richardson, 1987; Carruthers & Espeland, 1991; Covalleski, Dirsmith & Michelman, 1993), few studies have explored the process through which the legitimacy of the contemporary accountancy profession itself is established.

Extant studies have shown the importance of discourse in the legitimization of organizations and their actions (Suddaby & Greenwood, 2005; Maguire & Hardy, 2006; Vaara & Tienari, 2008). Discursive processes are involved in creating favorable positions in the face of perceived transgression of accepted social norms (Elsbach, 1994; Creed et al., 2002; Vaara and Tienari, 2008), and in the creation of new institutional forms (Suddaby and Greenwood, 2005). Discourse is also thought to be a central medium for the de-legitimation of institutions in the face of questioned conduct (Vaara et al., 2006). Accounts – both in the form of written and spoken language-in-use - are therefore understood to play an important role in the configuration of institutional fields (McInerney, 2008).

Accounts are deemed to be adequately intelligible and warrantable (Harré, 1977) when they meet certain socially accepted norms of accounting, such as an established “vocabulary of motive” (Mills, 1940). As Mills (1940: 906) argues, “institutionally different situations have different *vocabularies of motive* appropriate to their respective behaviors”. In other words, the types of interest, stake or motive

deemed legitimate for an accountancy firm is likely to be different to an organization in an open, de-regulated market. For example, an appeal to “pragmatic” (Suchman, 1995: 578) means-end calculations of self-interest maximisation may be entirely legitimate for the latter but not the former, with its notions of professionalism. Hence, our project in this paper is to map the institutionally appropriate ways of accounting for stake, interest and motive under conditions of legitimacy disruption in the accounting field.

Professions lay claim to special privileges and rights, which, *inter alia*, includes the control over rights to practice and jurisdictional control of the germane body of knowledge (Abbott, 1988). The State, in effect, cedes monopoly rights over a particular jurisdictional area to a profession, which confers both high social status and the ability to realise economic rent. This is reciprocated by the profession through their claim to be upholding the public interest, which is often enshrined in the form of some higher ethical purpose or set of values, of which the Hippocratic Oath is arguably the most famous example. While early studies of professions were broadly functionalist in their orientation, emphasizing their role in institutionalizing expertise (Giddens, 1990), studies from the 1970s onwards have taken a more critical perspective (Johnson 1972; Larson, 1977). The role of interests is central to many established and recent critiques of professions, who are accused of using notions of ‘higher values’ as a smokescreen for their operation as labour market shelters, trade associations masquerading as bastions of public interest, and as bodies riven with conflicts of interest that compromise the rights bestowed upon them by the State (Johnson, 1972; Larson, 1977, 1993).

Successful professionalisation projects have greatly enhanced their material and political power over the last three decades while concomitantly being the object of critique. For Covalleski, Dirsmith and Rittenberg (2003: 327), professions can be seen as “too closely aligned to the vested interests of the client thereby undermining the professional claim of neutrality and independence”. Accountancy is also arguably one of the more “commercial” professions, questioning its claims to legitimacy through normative claims to professional values (Greenwood & Suddaby, 2006: 44). The accountancy profession therefore faces a particular type of challenge in handling its association with ‘vested interests’ and ‘commercial interests’.

According to Greenwood and Suddaby (2006), professions are increasingly integrating commercial economic logics within their traditional professional logics.

Hinings, Greenwood and Cooper (1999) note a distinct trend towards commercialisation and commodification in the audit field in particular. In his prescient work on Dublin accountants, Hanlon (1993) charted the shift from a public spirited professionalism to one that was much more narrowly focused around commercial interests. In practical terms this heralded a displacement of a relatively benign form of capitalism by neo-liberalism, which opened up a number of fissures within the accountancy professional, such as: Is the 'client' senior management or the public good? Does being a 'professional' mean embodying a particular tradition and body of knowledge or serving a particular client well? What level of 'switching' between auditors is required to ensure that anti-competitive protectionism is not taking place? As a result, the accountancy profession currently faces contests around whose 'interests' are (or should be) central and how they should best be served.

In summary, professions define their legitimacy by "attaching their expertise to values with general cultural legitimacy" (Abbott, 1988: 16), such as science, objectivity or rationality. Hence, the legitimacy of professions rests on their ability to maintain a sense of 'higher ideals' – such as 'health', 'truth' or 'justice' - that rise above narrow interest-based logics of profit maximization or personal self-interest. According to Friedson (2001: 122), it is this claim of "devotion to a transcendent value" that positions the professions as 'above' any narrow sense of vested interests: 'above the fray'. The paper will now address the conceptualization of interests.

Interest Discourse

In this paper, we develop a distinct theoretical framework for studying the role of interests in institutional processes of legitimization, grounded in ethnomethodologically-inspired approaches to the study of accounts (Woolgar, 1981; Callon & Law, 1982; Gilbert & Mulkay, 1984; Potter, 1996). In the current literature on discursive strategies for legitimation and de-legitimation (Vaara & Monin, 2010), interests are typically understood as a social 'factor' or 'force' that drives institutional processes, including processes of legitimation. Put simply, institutional actors use discourse to appear legitimate in order to advance or protect their interests (Covaleski, Dirsmith & Rittenberg, 2003).

Existing work has sought to develop the link between interests and discourse by proposing that interests can serve as an underlying mechanism that explains the drivers of institutional action, including the strategic use of discourse in institutional

processes (Covaleski, Dirsmith & Rittenberg, 2003; Phillips, Lawrence & Hardy, 2004; Munir & Phillips, 2005; Suddaby & Greenwood, 2005; Greenwood & Suddaby, 2006; Garud, Hardy & Maguire, 2007; Zietsma & Lawrence, 2010). Here, interests are typically presented as hidden forces that lie behind, and serve to explain, the use of discourse. In analytic terms, interests are invoked as a social scientific explanation for why institutional actors use talk and text in particular ways. Discourse is thereby understood as an ideological ‘weapon’ used to further the interests of a particular individual or group.

Drawing on ethnomethodology, we build on and advance this existing work by moving the analytic spotlight towards how institutional actors *themselves* account for, and make sense of, institutional action in terms of ‘interests’. Our aim is not to specify the interests that *we as analysts* identify as the causal mechanism that drives institutional action, but rather how *institutional actors in the accountancy field themselves* engage in “monitoring, evaluating, attributing (in short, in ‘accounting for’) the potential presence or absence of interests in the work and activities both of others and of themselves” (Woolgar, 1981: 371). In short, our Ethnomethodologically-informed Discourse Analysis (EDA) perspective seeks to turn what is commonly treated as a *resource* for social scientific explanation into a *topic* for social scientific study. In ethnomethodological terms, EDA (a) shifts the focus from interests as a second-order academic resource for explanation towards studying interests as a first-order member’s reasoning procedure (Leiter, 1980), and (b) studying how members use these reasoning procedures ‘in situ’ to conduct institutional business - in our case the business of overseeing and scrutinising the accountancy profession in the context of a political inquiry.

According to Potter (1996), stake, interest and motive are pervasive features of social life. Actors treat each other as if they have certain desires, motivations, institutional allegiances, prejudices and biases. Interests can range from more straightforward financial interests (e.g. audit fees) to more complex psychological or social interests, such as reputation, status, career, power or influence (Potter, 1996). Interests can be attributed to individuals, groups, organizations, professions, industries or entire nation-states. To date, we lack a theoretical framework that conceptualizes how institutional actors handle stake, interest and motive in order to construct and contest the legitimacy of (a) the actor, (b) their accounts, and (c) the past, present or future actions thus accounted for. For the purposes of this paper, we develop our EDA

perspective by drawing on established concepts such as stake attribution, stake inoculation and stake confession (see Potter, 1996), while also developing the categories of discursive strategies pertaining to de-legitimation and re-legitimation (see Table 1 below).

De-legitimation	
Stake attribution	The discursive process of ascribing (illegitimate) interests, stake and motive to other individuals or groups.
Stake interrogation	The discursive process of questioning the legitimacy of the interests, stake and motive of an individual or group.
Stake misalignment	The discursive process of claiming that an individual or group is not aligned with a legitimate set of interests.
Re-legitimation	
Stake inoculation	The discursive process through which actors deny, or down-play, the notion that they have an illegitimate stake, interest or motive in a particular argument or course of action.
Stake confession	The discursive process through which actors admit or “confess” to having a particular stake, interest or motive.
Stake alignment	The discursive process through which actors claim to share, or align with, the (legitimate) interests of certain others.
Stake transcendence	The discursive process through which actors claim to transcend self-interest through attachment to a certain higher norm, value or ideal.

Table 1 Definitions of Discursive Strategies for Handling Interests

We propose that interest discourse operates both to pose and manage threats to the legitimacy of an institutional field. As we will show, interest discourse was used by accounting firms to defend and maintain both their *professional legitimacy* - “legitimacy conferred by professional endorsement” (Deephouse & Suchman, 2008: 53), and their *normative legitimacy* - “legitimacy conferred by any audience (including but not limited to professionals) on primarily normative grounds” (ibid). Hence, we view interest discourse as a form of “legitimizing account” (Creed, et al. 2002). Interest discourse, we propose, plays a crucial role in enabling the accounting

profession to “gain legitimacy in the eyes of critical constituencies” (Greenwood et al, 2008: 4) in the face of a crisis of legitimacy.

Having set out the theoretical framework, we will now turn to examine the institutional context of our study: a crisis of legitimacy in the accountancy profession.

Setting the Scene: Accounting and the Crisis of Legitimacy

Attacks on the legitimacy of the accountancy profession are not new. Hinings, Greenwood and Cooper (1999) note an increasing sense of public scrutiny directed towards the audit field in particular over the last few decades. Many (if not most) financial failures and corporate scandals were not detected by the auditors employed to check the verisimilitude of the accounts. For some, this is a testament to the failure of the audit apparatus currently in place throughout most of the western world (Sikka, 2009), while for others the expectation that audit firms should spot such accounting sleights of hand is unrealistic (Demski, 2002). Paradoxically, as Power (1997) notes, at the very juncture at which audit is in crisis, it is acting as a ‘template’ for organizing ever more spheres of life: the creation of an “audit society” and “audit culture” (Power, 1997; Strathern, 2000), in contexts such as universities, schools and hospitals. While audit has been understood as symbolic process for *generating* legitimacy (Power, 2003), we focus here on the ‘crisis of legitimacy’ surrounding *the audit field itself*.

Macintosh (2002) has argued that contemporary accounting is suffering from a ‘crisis of representation’ caused by the disconnection between accounting numbers and that which they are supposed to signify. The raft of financial failures that have occurred over the last decade, from the dotcom collapse to the Enron scandal to the 2007 – 2009 banking crisis, lend some credence to Macintosh’s thesis. The accounting numbers, certified by powerful accounting firms, were often far removed from the true financial state of these firms. For Macintosh, this signifies a case of modernist accounting techniques being at odds with the post-modern world, with accounts acting as exemplars of hyperreality and simulacra.

For other commentators, more conventional explanations of vested interests help shed light on the Big Four’s apparent failures. Arthur Andersen, Enron’s auditor, charged Enron in the region of \$100 million in 2000 for services provided. Half of this amount related to the audit, while the other half was for consultancy services

provided. Critics, such as Arthur Levitt¹ (former head of the SEC), have argued that this led to a fatal conflict of interest as Arthur Andersen ‘softened’ the audit in order to gain lucrative consulting contracts (Tinker and Carter, 2003). Sikka (2008: 209), one of the most prominent scholarly critics of the accountancy field, accuses audit firms of “predatory practices” such as price-fixing cartels, tax evasion, bribery and corruption and money laundering: a sharp contrast to their claims about “professional ethics”. Others note that the modern Big Four accountant is socialized to please the client (Anderson-Gough et al, 2000) rather than to ask awkward questions or to root out potential malfeasance (Grey, 2003), letting the interests of clients over-ride professional standards. As a result, accountants are viewed by some as ill-prepared to carry out the job that society thinks an accountant should be performing (Sikka, 2009)². Defenders of the accountancy profession claimed that the Enron debacle was an aberration and sought to explain it in terms of ‘rogue auditors’ behaving inappropriately (Demski, 2002) – a case of ‘bad apples’ rather than a ‘bad barrel’ rendered rotten by systematic conflicts of interest.

The global financial crisis has once again put the accountancy profession into the spotlight and has led to an intensification of the public scrutiny of the accounting profession. The Parliamentary inquiry we draw on in this paper was prompted by the question of “whether auditors could have mitigated the banking crisis of 2008 by alerting investors to the riskiness of the assets held by banks” (House of Lords website, 2010). In the words of Lord MacGregor, Chairman of the House of Lords Economic Affairs Committee, who undertook the inquiry:

“The auditing industry has been dominated by a very small number of players for some time now. We will look at the scope for promoting more competition. Auditing is a very high profile issue following the financial crises and we will seek to establish whether the market dominance by a small number of auditors contributed to a failure to pick up on unsustainable risks being taken on by international banks.” (House of Lords website)

We will now turn to a discussion of the methodology we used in our analysis of this Parliamentary inquiry.

¹ <http://specials.ft.com/enron/FT3SEX5VWC.html>

² There is some debate within public policy circles as to whether the public perception of what accountants should be doing is realistic. In the immediate aftermath of the financial crisis Professor Michael Power, of the London School of Economics, told a UK Treasury Select Committee that “it may not be reasonable to expect that auditors would be challenging business models and raising strategic issues. That is not their job and if we want to make it their job, then things would have to change substantially”.

Methodology

The transcript we analyze was part of a series of meetings and reports announced by the Select Committee on Economic Affairs of the House of Lords as part of its inquiry ‘Auditors: Market Concentration and their role’. The British Parliament is bicameral with an upper house (The House of Lords) which is independent from the ‘lower house’ - the House of Commons - and acts to debate legislation and scrutinize bills that have been introduced by the House of Commons. Lords are appointed rather than elected, some by hereditary peerage, and have typically held senior positions in industry, civil service or other such leadership roles. Hence, peers are generally expected to provide a body of specialist knowledge that provides constitutional oversight independent of electoral process. The Lords have a series of specialist committees, such as the Economic Affairs Select Committee, that hold inquiries and produce recommendations on contemporary issues of national importance.

The Select Committee inquiry we analyse involved a series of 11 oral evidence sessions involving members of the House of Lords Select Committee on Economic Affairs (acting as the questioners), partners of the main audit firms (‘The Big Four’), regulators and academic experts. A complete list of the 11 hearings is provided in Table 2.

Date	Witnesses
12 th October 2010	Academic experts
19 th October 2010	Representatives of accountancy professional bodies [Chartered Institute of Management Accountants, Association of Chartered Certified Accountants, Institute of Chartered Accountants in England and Wales, Institute of Chartered Accountants of Scotland]
26 th October 2010	Representatives of consultancy firms
2 nd November 2010	Representatives of medium-sized firms
9 th November 2010	Regulators [Office of Fair Trading, Financial Reporting Council, Financial Services Authority]
23 rd November 2010	Representatives of the “Big Four” accountancy firms [Ernst & Young, PwC, KPMG, Deloitte]
7 th December 2010	Representatives of FTSE 250 firms

14 th December 2010	Internal audit professional body [Institute of Internal Auditors]
11 th January 2011	Representatives of the investment community
18 th January 2011	Representatives of the accounting standards board [International Accounting Standards Board]
25 th January 2011	Ministers and MPs for business, trade and industry [Financial Secretary, Minister for Employment Relations, Consumer and Postal Affairs, Director of Business Environment]

Table 2: List of hearings in the House of Lords Select Committee on Economic Affairs Inquiry on “*Auditors: Market Concentration and their Role*”, October 2010-January 2011.

This paper focuses specifically on the hearing held on 23rd November 2010 when four partners from the ‘Big Four’ were called for questioning about the current state of market concentration in the audit industry. The questions asked during the hearing were numbered in the publicly available transcript and are referenced accordingly (eg. Q263), using the notation “Q” for questions and “R” for responses. A list of the participants in the hearing quoted in this paper are given in Table 3.

Role	Name	Position
Questioners	Lord MacGregor (Chairman)	Chairman of the Select Committee on Economic Affairs (SCEA)
	Lord Best	Member of SCEA
	Lord Forsyth	Member of SCEA
	Lord Hollick	Member of SCEA
	Lord Lawson	Member of SCEA
	Lord Levene	Member of SCEA
	Lord Lipsey	Member of SCEA
	Lord Smith	Member of SCEA
	Lord Tugendhat	Member of SCEA
Witnesses	Mr Scott Halliday	Ernst & Young

	Mr Ian Powell	PricewaterhouseCoopers
	Mr John Griffith-Jones	KPMG
	Mr John Connolly	Deloitte

Table 3: Participants in the House of Lords Select Committee on Economic Affairs Inquiry on “*Auditors: Market Concentration and their Role*”, 23 November 2010

The hearing on 23 November 2010 was publicly-available as a fully transcribed 47-page document³. We focus on this single hearing for two reasons. First, it was in this setting that questions of legitimacy were most salient. It was the “Big Four”, not academic experts or politicians, who predominantly faced scrutiny in this inquiry. Hence, focusing on this one hearing enables us to study processes of de-legitimation and re-legitimation as they occur in practice. Second, the focus on a single transcript enabled the kind of micro-analysis of naturally-occurring talk (or text) required by the ethnomethodological perspective we adopt. Testimonies have previously been analysed in studies by Lynch and Bogen (1996), who draw on ethnomethodology and conversation analysis, and Brown (2004, 2005), who draws on narrative approaches. A central strength of EDA lies in its synthesis of insights from Ethnomethodology to understand how meaning is built (or contested) sequentially, turn-by-turn, in naturally-occurring conversations, and insights from post-structuralism and the sociology of knowledge to study the social construction of reality through discourse (Potter, 1996; Wiggins & Potter, 2008).

The process of analyzing interest-discourse is more difficult than many other discursive topics because interest, stake and motive are often handled implicitly rather than explicitly (Potter, 1996: 131). This means that content analysis, such as searching for the terms ‘interest’, ‘stake’ or ‘motive’ is not appropriate. In fact, Potter (1996: 125) notes that common discursive strategies for achieving stake attribution, such as the phrase “they would say that wouldn’t they”, leave important ambiguity around precisely what interest, stake or motive is being attributed. Stake inoculation is also

³ The transcripts of all the hearings are publicly available at the following website:
<http://www.parliament.uk/business/committees/committees-a-z/lords-select/economic-affairs-committee/inquiries/auditors-market-concentration-and-their-role/>

predominantly achieved through indirect means, such as apparently ‘neutral’ descriptions. Hence, a quantitative approach, such as counting instances of key words such as ‘stake’ or ‘interest’, is neither feasible nor desirable from our theoretical perspective.

We began the data analysis with two discursive strategies already in mind – stake attribution (de-legitimation) and stake inoculation (re-legitimation) – based on Potter (1996). All three authors independently read the transcript to conduct the first stage of coding. It was at this stage that the two discursive strategies were expanded into the seven strategies listed in Table 1. Differences in the independent coding were found in only three extracts. Through a process of discussion, a tentative agreement was reached about the categorisation of these three extracts. However, it is important to note that the authors noticed considerable overlap between the strategies listed in Table 1. Hence, we propose viewing the strategies not as discrete entities that can definitively categorise any text, but rather as broad themes that may be woven into a text.

We now turn to present our analysis of the discursive strategies used to achieve the de-legitimation and re-legitimation of the audit field in the House of Lords inquiry.

Interest Discourse and De-legitimation

Stake Attribution

Stake attribution refers to the process of ascribing (typically illegitimate, reprehensive or questionable) interests, stake and motive to other individuals or groups. As Antaki, and Horowitz (2000) show, accounts (and the actors that make them) can be discredited (de-legitimized) by portraying them as “interested” in some way. In what follows, we will focus on not only *what* interest, stake or motive is attributed to the Big Four in the House of Lords inquiry – that is, what ‘vested interests’ the Big Four are accused of having - but crucially also *how* this stake attribution is achieved.

Q240 Lord Tugendhat: Thank you. Then to come to my own question; the ABI [Association of British Insurers] wrote, and I do emphasise it was the ABI in 2006, “We are not comfortable with a position where large firms could determine the shape of regulation by threatening to withdraw from the audit market”. Obviously they feel that you do threaten, or you did threaten, to withdraw from the audit market. Do you regard that, first of all, as a reasonable assessment and secondly, would you agree that

since you are only four, any threat to withdraw could be said to be an abuse of a statutorily privileged position?

Extract 1

In Q240, Lord Tugendhat attributes an illegitimate stake to the Big Four. He accuses the Big Four of advancing their ‘vested interests’ by threatening to withdraw from the market to influence government regulation. How, then, is such stake attribution discursively achieved?

Tugendhat does not directly accuse the Big Four of having an illegitimate vested interest. Rather, he distances himself from this accusation by using a common discursive feature known as ‘footing’. Footing is the stance we adopt towards what we say (Goffman, 1981: 128). For example, a person can seek to distinguish between being the ‘principal’, ‘author’ and ‘animator’. The author is the actor (individual or collective) who has *selected* the specific words used. The principal is the actor *on whose behalf* the words are spoken. The animator is the actor who actually *speaks*. Footing is a common feature of discourse used by scientists, journalists and politicians, amongst others, to present what they say as driven by the concerns, beliefs or ideas of others (eg. Clayman, 1992). It helps to portray discourse as neutral, objective and dis-interested. In Q240, Tugendhat presents himself as merely the ‘animator’. He portrays himself as merely ‘repeating’ the words or opinions of another: in this case the opinion of the Association of British Insurers (ABI). He carefully emphasises that the accusation he is repeating is from the ABI, not necessarily his own personal opinion: “I do emphasise that it was the ABI in 2006”.

Adopting the animator position achieves two things that are important for stake attribution: what Potter (1996: 15) calls ‘offensive’ and ‘defensive’ actions. The ‘offensive’ action is concerned with undermining the position of others, for example by accusing them of having a vested interest (stake attribution). The ‘defensive’ action is concerned with defending against one’s own position being undermined or discounted, for example by claiming to have no vested interest in what is being said (stake inoculation). First, the animator position bolsters the ‘offensive’ dimension by lending *weight and legitimacy* to the stake attribution, by appealing to corroboration (Potter, 1996: 158) from a ‘respected’ and legitimate source. Hence, inter-textuality (drawing on existing text) bolsters the legitimacy of a text, consistent with Phillips,

Lawrence and Hardy's (2004: 644) proposition that "a text is more likely to influence discourse if it refers to other established and legitimate texts and discourses".

Second, the animator position provides a 'defensive' dimension by creating sufficient personal distance from the accusation ("This is *their* opinion, not *my* opinion."), thereby also managing the perceived stake of Lord Tugendhat and his colleagues. Although the 'principal' is not explicitly stated, the setting itself – a governmental enquiry – frames Tugendhat as speaking not on behalf of himself, or his fellow peers, but on behalf of the (legitimately interested) stakeholders that the government represents: investors, business, taxpayers and the general public. Stake attribution is framed as part of 'properly doing their job' rather than any personal or political 'agenda' against the Big Four. The footing position of 'animator' thereby enables stake attribution to be achieved by Tugendhat without the potential for being itself undermined as interested (a 'defensive' action), such as motivated by any personal or political bias or agenda.

To sum up, de-legitimation is achieved not only through attributing stake to *others* (i.e. accusing the Big Four of protecting their vested interests), but also through handling the potential stake of the *speaker* (i.e. as someone who is furthering the interests of the public, not motivated by any personal or political interest).

Stake Interrogation

Stake interrogation refers to the discursive process of questioning the interests, stake and motive that are declared (or denied) by other individuals or groups. Stake interrogation is important, we suggest, for the work involved in de-legitimizing institutions because it enables stake that has been denied or down-played (through stake inoculation – see below) to re-introduced. Displaying scepticism towards claims of neutrality and dis-interestedness questions legitimacy by invoking an 'ulterior motive': an attempt to 'conceal' interests. We propose that using stake interrogation to undermine claims about the *absence* of interests – such as a financial gain, an ulterior motive, an 'axe to grind', a hidden agenda or political allegiance - comprises an important discursive strategy through which de-legitimation can occur.

In what follows, we show how stake interrogation occurs over a series of interactional turns.

Q242 Lord Smith: How competitive can the large company audit market really be when it is so highly concentrated and tendering and switching rates are so very low?

Q243 The Chairman: I declare an interest as a member of audit committees in the past. Is there really that ferocious a debate in most of them? It is the one item in the AGM that passes without any comment ever I think. I noticed from Oxera's Consulting Report in 2006 that more than 70% of the FTSE 100 has not held a competitive tender in the last 15 years. That doesn't sound like a very lively competitive tendering market.

Q244 Lord Forsyth: I don't want to press you on this but just on the Chairman's point about Oxera. I must say I find it very difficult to take this argument that it's really competitive when, according to their figures, which I see you're not really disputing, the switching rates for a FTSE 100 company are every 48 years; for a FTSE 250, every 36 years and for all listed companies, every 25 years. How can you possibly argue with a 4% churn every year that that's a competitive market? ... In 48 years, they'd all be dead; long since retired.

Extract 2

This trifecta (Q242-4) shows the way in which a 'stake' is interrogated over a series of turns. For reasons of space, we have not included the responses to these questions. However, the reader is invited to examine the publicly available transcript of this inquiry, which we categorise as 'stake inoculation'. The responses emphasized the 'intensity' and 'ferocity' of the competition between audit firms. In so doing, the Big Four employed 'stake inoculation': claiming not to collude with each other, or with clients, to maintain their vested interest in the oligopoly, but rather behave in the 'proper' (legitimate) way by supporting the ideal of intense competition. However, in this case, *stake interrogation* was employed by the Lords to undermine the Big Four's attempts at stake inoculation and re-open questions of the legitimacy of the field. Stake interrogation enables the Big Four's claims about competition to be undermined, which acts to de-legitimize the audit field and open up the possibility of new forms of state intervention, such as a mandate for increased competition. Certain 'facts' are presented (such as low switching rates) that contradict the Big Four's claims about the level of competition. As a result, the claims about 'fierce competition' are undermined as mere 'rhetoric': an embellishment designed to protect their vested interests in avoiding any state intervention and 'break' up of their industry. Hence, framing an account *as (interest-laden) rhetoric* serves to de-legitimize its author(s), and the institutions they represent.

Footnote and inter-textuality are again important in the achievement of stake interrogation here. Adopting the position of 'animator', just "passing on" opinions

contained within another text – in this case a report produced by consulting company Oxera, enables a sense of neutrality and corroboration that comes with distancing from the source of the information. However, the Chairman also adopts a different footing position, that of ‘author’. He declares an interest (stake confession), with important effects. Rather than potentially undermining his stake interrogation of the Big Four, this stake confession (“as a member of audit committees in the past”) actually can be seen to bolster it. The Chairman draws on his personal experience to ‘author’ his opinion that audit committees – who decide (amongst other things) whether to switch to a different auditor – do not in fact have the “intense” debate that the Big Four suggest. Rather, he suggests, the question of whether to switch auditors “passes without comment”. The Chairman’s claim to a certain *membership category* (a member of audit committees) gives him a certain position that “warrants voice” (Phillips, Lawrence & Hardy, 2004: 643). Through his *category entitlement* (Potter, 1996: 15) to certain forms of (trusted) knowledge: knowledge of the ‘real’ inner workings of audit committees, the Chairman uses personal experience to legitimate his account (Potter, 1996: 166). Thus, the ‘animator’ and ‘author’ footing positions combined enable the Chairman to interrogate the stake of the Big Four in two (complementary) ways: from “what they say” (in the Oxera report) and from “what I have seen with my own eyes” (from my past experience of audit committees).

We now briefly turn to examine another extract – comprised of two consecutive questions - that demonstrate a different method of achieving stake interrogation.

Q250 Lord Lawson: So, in fact, since this [consulting work] is so small for you, all this stuff, it wouldn’t be of any great concern for you if that were prohibited.

Q251 Lord Lawson: But you don’t need to offer them [consulting services] to the same client; that’s the point. Of course you can offer these [consulting] services. The question is whether you should offer them to the same client. As I understand it, it’s pretty small beer, the extent to which you do this and, therefore, you wouldn’t be greatly exercised if that was prohibited.

Extract 3

Immediately prior to these two questions, the Big Four were asked about whether offering consulting services to clients constituted a conflict of interests by auditing the same client as they have offered advice to. The responses again employed stake inoculation – downplaying the potential conflict of interest by emphasising the small proportion of revenue that is generated from consulting and emphasising the high

levels of existing regulation. We view Q250 and Q251 as stake interrogation because the previous stake inoculation, which implies “we do not have a vested interest in consultancy services because it is insignificant to us”, is itself used to ‘test’ the Big Four’s claim to having *no* stake. Lord Lawson sets up a logical question for the Big Four: if, as you claim, consulting is unimportant for you (“so small for you”, “small beer”), then surely you will not mind if we introduced new legislation to prohibit it? Any disagreement with Lawson’s proposition – arguing against a ban on consultancy services - could then be interpreted (and dismissed) as ‘interested’. This example thus demonstrates the ongoing, sequential nature of interest discourse, whereby previous denials of stake are employed to further question, and possibly undermine, the interestedness of the Big Four. Thus, interests may never be ‘settled’ as such, but rather form part of the ongoing work of building, maintaining, repairing, or dismantling institutions.

To sum up, de-legitimation is achieved by subjecting the claims of the Big Four – specifically in our case the claims that they have no vested interests in maintaining the status quo - to *stake interrogation*. De-legitimation occurs in this case by drawing on corroboration (i.e. sources of evidence) and personal testimony (i.e. personal experience) to undermine the claim that the Big Four have no vested interests. By portraying the Big Four as interested in an illegitimate way (anti-competitive), stake interrogation thereby opens up the possibility for new forms of state intervention in the field. New forms of regulation, such as a ban on audit firms offering consulting services, enforced break-up or compulsory tendering, are rendered more possible and desirable as a result. While stake interrogation does not mean new forms of state intervention *have* to be taken up, given that discourse does not operate in a cause-and-effect manner, the viability and desirability of state intervention is certainly mediated through these discursive strategies of de-legitimation.

Stake Mis-alignment

Stake mis-alignment refers to the discursive process of ascribing interests, stake and motive to other individuals or groups that are said to be ‘mis-aligned’ with those considered legitimate. For example, a group of medical professionals could be accused of stake mis-alignment for placing the achievement of performance targets above patient safety. Zietsma and Lawrence (2010: 208) use the concept of mis-alignment in their study of institutional conflict in the forest industry. Stake mis-

alignment relies upon a widely held set of beliefs about what kinds of interests are legitimate, and which are not, for a particular institutional field.

The following extract is important for our purposes because it frames the subsequent stake interrogation by formulating what set of interests are legitimate for the Big Four.

Q239 Lord Tugendhat: Perhaps I may ask a supplementary before the main question. You are only four, as we've just been saying, and you are fulfilling an absolutely vital function. I just wondered whether you would regard your relationship with your clients as being much the same as any other commercial relationship between a buyer and a seller or whether you would feel that because of the nature of the service you're providing and the very small number of people providing it at your level, that this is something in the nature of a public good from which benefits and dis-benefits flow to all citizens; not just your clients but the whole investment community; anybody who buys stocks and shares however small. Would you regard your service as a public good that should be judged on that basis?

Extract 4

Lord Tugendhat sets up a clear legitimacy distinction in Q239. Protecting a narrow set of interests – the interests of the client – is constructed as illegitimate. Instead, a concept of “public good” - extending beyond clients to include the “investment community” and “all citizens” - is set up as the (only) legitimate set of interests. We have not included the response for reasons of space, but the reader is again invited to look at the publicly available transcript. In our view, the response was a full agreement and acceptance of this formulation. This agreement becomes important when we consider the next extract: a series of turns in which the question of how the Big Four performed the immediate run-up to the financial crisis, as auditors of banks (such as the Royal Bank of Scotland) that were subsequently ‘bailed out’ by the British government using taxpayers money.

Q263 Lord Lawson: May I pursue this further, Chairman? I was slightly surprised. In his opening statement, presumably on behalf of all of you, Mr Connolly explicitly said—and I think I took this down right; if I didn't I'm sure he'll correct me—that, so far as the question of auditing the banks is concerned, the auditors performed well. That seems to me to be extraordinarily self-satisfied in the light of what we now know to be the case. How do you justify that statement?

Mr Connolly [Deloitte]: First of all, let me say I wasn't representing my colleagues when I made that statement.

Lord Lawson: All right. On behalf of yourself then.

Mr Connolly: So on behalf of myself—

Lord Lawson: You would know about it because you were the auditor of the Royal Bank of Scotland Group, weren't you?

Mr Connolly: That's right.

Lord Lawson: Which went belly-up within a few months of your giving it a clean bill of health.

Mr Connolly: Yes. Well, of course, it didn't go belly-up. It was supported and that's—

Lord Lawson: No, it went belly-up. That's why it was supported.

Mr Connolly: There is a difference. No, there is a very important difference. But, first of all, in terms, the question that Lord Levene asked and which you are pushing back on now is, "Was there a failure of audit?", and I don't think there was. I think that the environment was such that the complexity of the financial environment at that time caused there to be a hugely intensive effort from auditors, recognising the onerous nature of their role. As a consequence of that, we dealt with very significant complex audits and had very important decisions to make around our audits. ... I think it was a proper and appropriate act from the four firms to seek to understand the likelihood of support being forthcoming and I can only say that had we concluded—and I assume had management of the banks concluded—that there was not going to be support, then a different audit opinion would have been given.

Q264 Lord Lawson: I find that absolutely astonishing.

The Chairman: So do I.

Lord Lawson: Absolutely astonishing. It seems to me that you're saying that you noticed that they were on very thin ice but you were completely relaxed about it because you knew that there would be support; in other words the taxpayer would support them, so there was no problem. That's what it seems to me you just said.

Mr Connolly: No, not at all. What we were aware of, very aware of, was that the consequences of reaching a conclusion—had that been the proper conclusion to reach—that a bank was going to go—

Lord Lawson: Belly-up.

Extract 5

Extract 5 shows how a claim to stake mis-alignment is achieved through questioning *whose interests* were privileged by the Big Four in their past audits of the 'bailed out' banks. Over a series of turns, Lord Lawson scrutinises which set of interests the Big Four sought to protect. Lord Lawson accuses the Big Four of knowing that the banks in question were "on thin ice" and about to go "belly up", but still giving them a "clean bill of health" in their audit reports. The Big Four are thereby accused of protecting the interests of the client, and by implication their own commercial interests, over and above the wider financial community, including investors and shareholders who lost money and the taxpayers who ultimately funded the bail out. The response by Mr Connolly, senior partner of Deloitte, involves a series of apparently 'trivial' semantic queries about whether his previous statement was representative of the Big Four as a whole and whether the term "belly up" is in fact an accurate characterisation of the situation. We will analyse the discursive strategies of re-legitimation in more detail below.

It is worth noting here that, from our theoretical perspective, these semantic battles are far from ‘trivial’. On the contrary, it is through this battle over terminology such as ‘belly up’ that the legitimacy of the stake, interest and motives of the Big Four was decided in the official ‘authoritative’ version produced by the Select Committee. Our analysis shows that the Select Committee questioners de-legitimise the Big Four by accusing them of disregarding the broader set of interests (investment community, general public) they are expected to be protecting in favour of the more narrow, sectional interests of the themselves and their clients. This extract has parallels to the studies of courtroom setting by Pollner (1979) and Drew (1992), where two conflicting accounts are constructed of ‘what really happened’ and what the ‘real motives’ of the accused were. By drawing on such ethnomethodological studies, we can see how certain motivations or interests are discursively constructed, in this case the implication that auditors had a vested interest in (falsely) giving banks a “clean bill of health”. Such discursive contests are, for us, far from just a semantic ‘side show’. Rather, they are the very machinery through which versions of interests are worked up and handled.

Having analysed the discursive strategies for de-legitimation employed by the questioners in this inquiry, we will now turn to examine the discursive strategies for re-legitimation employed by the respondents.

Interest-discourse and Re-legitimation

Stake Inoculation

Stake inoculation refers to the discursive process through which people deny, or down-play, the notion that they (as individuals or as a group) have a stake, interest or motive in a particular argument or course of action. Potter (1996: 125) defines stake inoculation as the use of discourse to “head off the imputation of stake or interest”. Our analysis focuses on how stake inoculation is deployed to re-legitimate the actions of the Big Four, in the face of the de-legitimation described above.

Q236 The Chairman: ... It’s been clear from a lot of the evidence that we’ve received that there is a great deal of concern about the present audit concentration in the Big Four and particularly, of course, if you look at the FTSE 100 or the FTSE 250, nearly almost all the audits in the FTSE 100 are now carried out by the Big Four and most of them in the FTSE 250. There is also the concern that you’ve just mentioned, Mr Connolly, of four moves to three. So we’ve had a lot of evidence of

concern about this. Are you happy about the present degree of concentration in the Big Four?

Mr Griffith-Jones [KPMG]: I'm not sure "happy" is quite the right word. It is the way it is. I know you've had a lot of evidence that it was eight, then it was six and then it became four. I think it's fair to say that concentration is the natural order of events in our industry. It's a very technical industry. There are many other industries in the world where you get maybe not four but a limited number of players who play at the top of the league and then quite a diaspora underneath them. I think the natural tendencies to globalisation, the skill set required and the amount of investment required to keep the audit process up to date and a sort of magnet like approach to getting the best people to come and work for us naturally reinforces the arrangements, which is why we need a regulator to prevent it getting any more concentrated than it is at the moment. I wouldn't say it was a good thing and if you ask us whether we would prefer that there were six and we didn't have to sit here answering this question, I think we'd all be very happy to be in that position.

Extract 6

In his first sentence, Griffith-Jones disavows a mental state: "happy". What does this apparently trivial mental state disavowal do for the institutional legitimacy of the accounting field? Griffith-Jones' reluctance to use the term 'happy' is significant for how it handles KPMG's motive and interest in the current market concentration. To agree that either he himself, KPMG or the Big Four as a whole are 'happy' with the current state of affairs would be to imply that they somehow benefit from it, are aware that they benefit from it, and want to protect their 'vested interests' in maintaining those benefits. Hence, this emotion disavowal (he is *not* happy) subtly performs a kind of *stake inoculation*: denying or down-playing the idea that the firm has a vested interest in the present market concentration.

From our theoretical framework, disagreement around the term 'happy' is not mere semantics, but performs a crucial initial role in handling interest. It implies that the current state of market concentration is not what the Big Four designed or desire - and therefore seek to defend to protect their interests. The phrase "It is the way it is" is crucial for presenting the current market concentration as an accidental or unintended outcome: not the outcome of deliberate self-serving behavior amongst the Big Four. This common discursive strategy is known as *externalization*: where events are presented as natural, inevitable and "out there", unrelated to the desires or preferences of the actors concerned (Potter 1996: 150). Externalization is again invoked when Griffith-Jones refers to the "natural order of events" and "natural tendencies". Griffith-Jones' inoculates against the notion of stake or vested interest by presenting the Big Four as passive entities within a system that has its own laws of

operation - what Suddaby and Greenwood (2005) refer to as ‘cosmological rhetoric’. Here, Griffith-Jones implies: how can the Big Four design the current state of market concentration to further our vested interests when these nature-like forces are beyond our control?

The terms “top of the league” and “diaspora underneath them” are also significant for performing stake inoculation. The present order is presented as a natural process of selection, where the ‘cream rises to the top’ – again a natural process rather than an outcome of interested design. Stake inoculation is also bolstered through the reference to “many other industries in the world” – a form of *corroboration* device (Edwards & Potter, 1992: 105; Potter, 1996: 151). Griffith-Jones presents the audience with a puzzle: if the Big Four represent a distortion of the ‘free market’ through their self-serving behavior, why is this same market concentration found in other industries? Market concentration is thereby presented as a natural and inevitable outcome of market dynamics, not the outcome of interest-seeking behavior. Our analysis thus resonates with Fligstein’s (1997: 400) suggestion that maintaining the illusion of ‘goallessness’ and ‘selflessness’ is a key institutional skill. However, Fligstein gives no indication of how this might happen, or what discursive processes are involved. What our analysis therefore shows is how stake is ‘inoculated’ against in practical situations, in the ongoing work of defending the legitimacy of the institutional field.

Stake Confession

Stake confession refers to, in effect, the ‘reverse’ of stake inoculation. Stake confession involves stake or interest being admitted or “confessed to” rather than denied or down-played. While on the surface stake confession appears to give ammunition to those who seek to attribute an illegitimate stake (stake attribution), in some situations stake may be considered so salient that denying it would generate disbelief and ignoring it would generate skepticism. We view this inquiry into the Big Four auditors as one such situation. Like the testimonies analyzed in Greenwood and Suddaby’s (2005) study, the testimonies of the Big Four were widely considered to be “interest-laden”. As Fligstein (1997: 398) argues, “people are assumed to have interests given by their positions in social structure”. Hence, institutional actors are commonly regarded as “definitively and officially interested” (Potter, 1996: 131). As such, stake confession is an important discursive strategy for handling interest. We

will now analyze one extract from the audit inquiry where stake was ‘confessed to’ in ways that sought to re-legitimize the audit field.

Q289 Lord Lawson: I will ask one more if we’ve got time on a different matter, although I think this is the key issue—this whole question of auditing the banks. ... Now, are there occasions when, today, you are inhibited from saying publicly, in any qualification to the accounts or whatever it is, that you have any reservations because of the fear of litigation—that, even though you think in your heart that there ought to be a qualification, the concern for litigation, which could be extremely expensive, inhibits you? Do you think, if that is so, that there might be a case for some kind of provision which would limit the damages to which you would be subject in the event of litigation going against you?

Mr Connolly: If I could offer a view first: first of all, I do agree with your observations about the circumstances that prevailed with the Bank of England and that did enable special pieces of work to be undertaken without risk. ... But to the general point—would we prefer there to be more protection?—yes, of course we would. I think also if there was more protection it would encourage, potentially, an extension of the market. For some of the medium-sized firms at the moment, the horror of dealing with clients of a scale that could wipe the business out at a stroke if they happened to have a problem must be a barrier to entry. But even more valuably perhaps, if there was more protection then it is more likely to create an opportunity to extend the role of the auditor to report on things that we don’t have to report on now but might be valuable. I think a dialogue around what further things could we report on that we don’t have to report on now would be very valuable. But you could only entertain those if there was a measure of protection.

Extract 7

This extract can be read as an example of stake confession combined with stake alignment (see below). The stake confession is performed on line 4 of Connolly’s response: “yes, of course we would”. Lord Lawson’s question asks whether the Big Four would be in favor of government limits to the damages they would have to pay in the event of litigation from clients. Connolly has a difficult ‘balancing act’ to perform in handling this question. To deny that the Big Four would favor such legislation would open them up to the charge of denying or concealing their ‘obvious’ vested interests in such a proposal: the Big Four would undoubtedly benefit from having their legal liability capped. Stake confession (“of course we would”) thereby enables Connolly to ‘admit’ and therefore ‘move beyond’ the ‘obvious’ vested interest they have in such a proposal. The Big Four cannot subsequently be accused of only supporting the proposal because it furthers their vested interests (stake attribution) because they have *already accounted for this*. As such, stake confession enables Connolly to present himself (and by implication the Big Four) as “someone

who can stand outside his interests and is well aware of their distorting potential” (Potter, 1996: 130).

We will keep our discussion of stake alignment brief because this is covered in the next section. Stake alignment is significant in Extract 7 because it enables the Big Four to present themselves as ‘going beyond’ or ‘rising above’ their *already confessed* vested self-interest. Connolly presents his endorsement of the proposal for a cap on litigation damages *not* as motivated by narrow self-interest – which has already been confessed to – but rather as motivated by the *broader interests* they wish to further: *aligning* their interests with those of other legitimate stakeholders. In short, they claim “we want what you want”. Connolly justifies his endorsement of the proposal on the grounds of how it could further “an extension of the market”. The proposal is endorsed *not* on the basis that it will further their own interests, but rather the interests of the wider investment community and general public at large: through removing potential “barriers to entry”, ensuring higher levels of transparency and probity in the audit process, and enabling them “to report on things that we don’t have to report on now”. Thus, our analysis extends Maguire, Hardy and Lawrence’s (2004) work on the translation of interests and Fligstein’s (1997: 400) concept of “aggregating interests” by showing how stake alignment may in fact be combined with stake confession, in a subtle ‘blending’ of interest positions that performs re-legitimation. In our case, we have shown that the Big Four present themselves as driven by legitimate motives by first *confessing* an (illegitimate) stake in order to present themselves as *transcending* narrow self-interest and present themselves as aligned with (legitimate) interests. We will examine stake alignment in more detail next.

Stake Alignment

Stake alignment refers to the discursive process through which people claim to share, or align with, the (legitimate) interests of certain others. Let us first return to the earlier extract (see Extract 6 above) from Griffith-Jones, senior partner of KPMG. The word “happy” is again invoked in the last sentence of Griffith-Jones’ account. Why is this word significant for the purposes of handling stake, interest and motive? Griffith-Jones uses the word “happy” to claim that the Big Four would *prefer* there to be six players in the market instead of four (“if you ask us whether we would prefer that there were six and we didn’t have to sit here answering this question, I think we’d all

be very happy to be in that position”). He also claims earlier that the Big Four *dislike* the current market concentration (“I wouldn’t say it was a good thing”) and claims that they *want* proper regulation to ensure no further concentration occurs (“we need a regulator to prevent it getting any more concentrated than it is at the moment”). In other words, Griffith-Jones avows the *stake alignment* between what the Big Four want and what the inquiry wants to see, namely an improvement to the “present audit concentration in the Big Four”.

Stake alignment has also been noted as a key network-building strategy within actor-network theory. Networks are built by convincing others that their interests are aligned: “I want what you want” (Latour, 1987: 108). Indeed, for Fligstein (1997: 400), this translation or ‘aggregation’ of interests is a key institutional skill, as agents “find a way in which to join actors or groups with widely different preferences and help reorder those preferences”. Griffith-Jones presents the Big Four as having a shared interest in breaking-up the market, coupled with a shared interest in ensuring no further concentration through appropriate oversight and regulation. The extract below is important because it shows the discursive process through which such ‘alignment’ can be questioned and re-affirmed. Here, Lord Lipsey questions the Big Four about their assessment of the new UK audit firm governance code.

Q259 Lord Lipsey: So just to be clear, [the new UK governance code] will deliver quality, you hope. It will deliver transparency. It is not particularly about widening choice and dealing with the widening choice issues.

Mr Powell [PwC]: Only to the extent that, as the audit firms are more transparent, people can look at the way that the firms are run and make a decision as to whether they want to move to a wider choice.

Mr Halliday [Ernst & Young]: If there was an Andersen moment involving one of the Big Four firms, having independent non-executive directors who could step in and assist in that situation would be very helpful.

Extract 8

Lord Lipsey invites the Big Four to assess the extent to which their interests are aligned with those being put forward by the questioners as ‘legitimate’ interests: the interests of ensuring competition, choice, transparency and service to the wider public good that were established earlier, in Extract 4 (see above). Powell and Halliday respond by avowing their *full and complete alignment* with these previously agreed interests. Powell and Halliday present their endorsement of the new UK governance code as being motivated not only by their desire for “quality” and “transparency”, but

also “widening choice” and avoiding further market concentration arising from another “Andersen moment”. In short, the Big Four present their interests as aligned with what others want: “I want what you want”.

How, then, does stake alignment contribute to re-legitimation? Stake alignment serves to dismiss threats to the legitimacy of the field, including potential new forms of state intervention (such as a break-up of the audit market). New forms of ‘heavy handed’ government regulation are framed as *unnecessary* because the Big Four are positioned as already fully *aligned* with what any regulation would be designed to do: ensuring proper competition and protecting the wider investment community and general public. The apparently ‘light touch’ UK governance code is also presented as already doing the job of regulating against narrow self-interest. The Big Four position themselves as legitimate by claiming to naturally “want” the same things as everyone else does, and already pro-actively developing their own self-regulation to ensure narrow self-interest does not “interfere” with these wider interests.

Stake Transcendence

Stake transcendence refers to the discursive process through which people claim to transcend self-interest through attachment to a higher norm, value or ideal. This discursive strategy may be particular to the professions, where legitimacy is often tied to their association with a higher ideal or value, such as ‘justice’, ‘knowledge’ or ‘truth’ (Freidson, 2001). However, the appeal to higher values – such as what is ‘natural’ or ‘right’ - could also be seen more widely within any “legitimizing account” (see Creed, et. al. 2002). Appealing to higher values can enable accounts to be presented as legitimate by disavowing any personal or political stake or gain. In our case, the higher ideal of “audit quality” was a recurring feature of the testimonies of the Big Four. Here we select one such example for detailed analysis.

Mr Powell [PwC]: It’s worth adding to that as well that the concentration that’s there is the result of market choice. I think that it is a very complex product and I think the market does look at the scale and reach of the services that it needs, so as our clients have become more global, as they become more multi-national, they look for that sort of degree of coverage from the audit firms that service them. I think when you start to look at the level of investment that’s required across the world, I guess it is understandable that it has come down to a relatively few firms that can afford that level of investment. Just to give you an example, at PwC, our new audit approach has cost something like \$400 million to roll out across the world. The UK share of that is

about £40 million. So to be able to service clients that are very complex, that cover so many different territories, with real quality—and that is the ultimate focus of everything that we do, the quality of the audit—then I think you do need this sort of scale of operation to be able to make that investment.

Extract 9

Let us first begin with stake inoculation before we move on to examine stake transcendence. Powell's appeal to "market choice" uses the same externalization device as Griffith-Jones used in Extract 6 above. Here, Powell also appeals to "the needs of the client" to render market concentration intelligible and warrantable (Harré, 1977): it is what *they* want rather than what *we* want. Powell implies that the Big Four have no 'sectional' interest in the situation, they are merely fulfilling what is in the best interests of the client. Hence, we view this first part of Powell's response as a form of stake inoculation.

We would now like to turn our attention to the final sentence in Powell's account. What does this reference to "real quality" do for the legitimacy of the institutional field? Quality is presented as a transcendent ideal that drives their behavior, making them "above the fray", rising above any narrow, sectional interest-seeking behavior in the pursuit of professional values, in this case audit "quality". Quality, as an avowed 'higher' motive, enables the Big Four to distance themselves from the accusation of having an overly selfish, *illegitimate* motive in the present state of market concentration and competition. The dominance of the Big Four, they claim, is an outcome of their *legitimate* pursuit of audit quality in a global marketplace, not an *illegitimate* drive for an oligopoly that provides them with escalating fees and little challenge from competitors. Stake transcendence therefore performs an important role in re-legitimizing the field by providing a legitimate – perhaps even praiseworthy – motive for their behavior. Stake transcendence also heads off any potential state intervention by presenting any 'artificial' interference as having the potential to undermine the very "professional values" upon which their clients and the wider community rely.

Discussion

The sections above highlight the 'interest discourses' through which de-legitimation and re- legitimation take place. To what extent, in the eyes of the House of Lords Economic Affairs Select Committee, were the Big Four delegitimized or had they

been effective in re-legitimizing themselves? What, then, are the institutional implications of the interest discourse that we have analysed in this paper? Table 4 offers an overview of the official report published by the House of Lords Economic Affairs Select Committee (EASC), which provides the conclusions and recommendations of the inquiry into market concentration and their role in the financial crisis. The report is striking as it presents the Big Four as ‘definitively interested’ and ‘illegitimately interested’ in the current state of the audit market. It is important to note that the testimony of the Big Four was almost completely dismissed and de-legitimized in the official report. This is particularly noteworthy as the report was prepared by members of the elite financial establishment, who also happened to be Lords and members of the House of Lords Economic Affairs Select Committee.

The EASC report concludes that the current state of the market is not an outcome of ‘natural market forces of competition’, driven by the pursuit of audit quality (as the Big Four sought to argue in their testimony) but rather the outcome of restrictions in forces of choice and competition characteristic of an ‘oligopoly’. The accountancy profession as a whole is presented as having largely failed in prior attempts to self-regulate to avoid being dominated by vested interests, such as putting revenue above public duty. As a result, a series of interventions in the audit market are recommended, including an official Competition Commission investigation, mandatory tendering of audit contracts, mandatory dialogue with regulators and shareholder and a review of the current ban on non-audit services and cap on legal liability. These recommendations for market intervention and regulation are founded on the conclusion that the (self-)interests of the Big Four are mis-aligned with the wider public interests that the Government represent.

What, then, has happened to the UK audit market since the publication of the official report from this inquiry? Table 5 offers an overview of the key reports and recommendations that have been made by the Government, regulators, professional bodies and other stakeholders since the publication of the EASC report. It is important to note that the House of Lords, nor the EASC, cannot enforce its recommendations or pass legislation alone – it can only recommend certain courses of action to Parliament. Thus, the way in which the UK government, in conjunction with other stakeholders such as regulators and the profession, responded to the EASC report is crucial for determining the outcome of the inquiry. Two elements are worth highlighting here, given our interest in interest discourse and institutional legitimacy. First, it is

noteworthy that while the government response agrees with the EASC regarding the problems with the audit market, and agrees that the industry has been driven by vested interests that have reduced competition and undermined quality standards, some of the recommendations for state intervention in the field and increased regulation (such as mandatory tendering, revision of IFRS and a ban on advisory services) were not accepted (see Table 5). Nevertheless, serious implications for the audit field in the UK have arisen from this inquiry, such as the referral to the Office of Fair Trading and Competition Commission for further investigation (currently in progress).

To sum up, a shift in discourse has been apparent: within the inquiry the Big Four presented themselves as ‘disinterested’ or ‘legitimately interested’, but the EASC concluded the opposite: laying the ground for a warrant to increase regulation and intervention in the field. While it is clear that the UK Government do not share the same conclusions about the state of the audit market and the need for regulation and state intervention in the field as the EASC, nonetheless material changes to the audit field have been proposed and are currently (at the time of writing) being implemented. Thus, our analysis of legitimacy and interest discourse shows the practical and consequential links between the social construction of interests and the regulation of the institutional field of accounting.

Conclusion

In this paper, we have sought to contribute to the study of accountancy by developing an Ethnomethodologically-informed Discourse Analysis (EDA) perspective on the role of interest-discourse in institutional processes. We have mapped the discursive strategies involved in de-legitimizing and re-legitimizing the accountancy profession in one setting: a British Parliamentary inquiry. Our study contributes by showing how interests are avowed and disavowed through not only explicit stake-management, but also implicit and indirect discursive strategies. De-legitimation was not achieved via explicit stake attribution, but rather through subtle linguistic techniques such as footing and corroboration. Re-legitimation was also not achieved via direct stake inoculation, but instead through more sophisticated techniques such as externalization and appealing to higher values.

Existing work on discourse, interests and institutions has focused on the legitimation activities of institutional actors, as they use discourse to advance or protect their interests (Covaleski, Dirsmith & Rittenberg, 2003; Phillips, Lawrence &

Hardy, 2004; Munir & Phillips, 2005; Suddaby & Greenwood, 2005; Greenwood & Suddaby, 2006; Garud, Hardy & Maguire, 2007; Zietsma & Lawrence, 2010). The EDA perspective advances this work by mapping the discursive processes through which institutional actors *work with* and *work on* the idea that they have a particular stake, interest or motive. Legitimacy is therefore conceptualized as an outcome of actor's ability to manage conceptions of 'interested-ness'.

Drawing insights from the ethnomethodologically-inspired work of scholars such as Woolgar (1981), Callon & Law (1982), Gilbert and Mulkay (1984) and Potter (1996), we have shown how interest discourse plays a key role in the processes of building, disrupting and maintaining the institutional field of accountancy. Furthermore, we also argue that interest discourse is not "just talk" or "mere rhetoric": *it does things and makes a difference*. As Buchanan and Keohane (2006: 405) argue, "judgements about institutional legitimacy have distinct practical implications". In our case, subsequent governmental intervention in the field took two main forms: proposals by the European Commission to separate auditing services from consultancy work and referral to the UK Competition Commission for anti-competitive behaviour. Both institutional outcomes rested on a discourse of interests in which the Big Four were discursively positioned as being unable to rise 'above the fray' and avoid conflicts of interests in their consultancy work and refrain from oligopolistic anti-competitive behaviour in their audit contracts.

What, then, are the broader theoretical implications of our study? We suggest that the EDA perspective offers a way of analyzing interests as *a topic of analytic inquiry in its own right* – by studying how members of an institutional setting make sense of, and account for, their 'interested-ness'. Accounting scholars have drawn significant insights from the study of discourse from other perspectives, notably Foucaultian perspectives (e.g. Hoskin & Macve, 1986; Miller & O'Leary, 1987, Miller & Rose, 1990), Critical Discourse Analysis (e.g. Seal, 2010; Mataira, 2010) and rhetoric (e.g. Young, 2003). The EDA approach to discourse analysis could, we propose, be operationalized in other accounting contexts where social facts such as 'interests' are invoked, deployed or contested. EDA could, for instance, be used to examine the role of interest-discourse during accounting controversies such as the Enron or Worldcom scandals in establishing whether vested financial interests had led to accounting-based fraud (hiding of assets or losses, mis-reporting of financial

statements, etc.): a key topic given the fact that interest-discourse is often pivotal to the legal distinction between ‘accidental error’ and ‘conscious manipulation’.

At the intra-organizational level, EDA could also be used to advance social, political and organizational perspectives on management accounting by helping to understand the organizational processes through which accounting calculations are used. For example, EDA could be used to study the process through which certain accounting calculations are reified as ‘truth’ and others discounted as ‘false’ on the basis of the presence (or absence) of individual or collective ‘interests’, such as “careerism” or “defending turf”. This would provide an interesting avenue for advancing existing work which has shown that organizational actors routinely deploy a ‘discourse of interests’ as they attempt to de-legitimize accounting calculations based on ‘stake’ (who stands to gain or lose), or purposefully use management accounting systems (such as Activity Based Costing) to undertake legitimation work based on their own ‘stake’ in the situation – that is, to ‘make the numbers look good’ for themselves, their department or their organization (Covaleski & Dirsmith, 1986; Hoque & Hopper, 1994; Englund & Gerdin, 2008; Major & Hopper, 2005; Whittle & Mueller, 2010).

At the level of politics with a capital ‘P’, EDA could also enable us to understand the role of accounting in political discourse and governmentality more generally. Future research could usefully be directed at studying how interest discourse is used to persuade citizens that it is ‘in their interests’ to do something (Callon & Law, 1982: 618), such as engage in particular calculative practices (Miller & Rose, 1990; Rose, 1991). Similarly, future research could help us to understand how interest discourse is used when government policy ‘calculations’ are undermined (perhaps by opposition parties) on the basis that they are politically-motivated to protect partisan interests, such as re-election. EDA would enable future research to study how common-place terms such as ‘rhetoric’ and ‘spin’ are also based on the idea that an account should be discounted on the basis of its “interested-ness”. This is because interest-discourse is, as we have argued, a pervasive feature not only of scholarly theoretical discourse but also *those we study*, as actors use ideas about who has ‘interests’ as a practical reasoning procedure for deciding what the ‘accounts’ or ‘numbers’ mean.

In terms of its more radical theoretical implications, the EDA perspective could be used to challenge an assumption underlying certain discourse-based

perspectives on accounting, particularly those inspired by Foucaultian thinking and Critical Discourse Analysis. Just as Garfinkel's sociological project was to challenge the 'judgemental dope' assumption underlying Durkheimian functionalist sociology, EDA could be used to challenge the 'interest-dope' (Woolgar, 1981: 375) assumption underlying other approaches to discourse analysis. As Callon and Law (1982: 615) put it, "interests should not be imputed to actors as background causes of action, but rather that they should be seen as attempts to define and enforce contingent forms of social order on the part of actors themselves". Studies by Woolgar (1981), Callon and Law (1982) and Gilbert and Mulkay (1984) have shown that scientists engage in attributing and managing interests themselves. Interests were not simply operating 'behind the scenes', working to push or pull the unsuspecting 'dupes' or 'dopes' forced to comply with their invisible powers, but rather comprised a central part of the *reasoning procedures* and *accounting practices* of the scientists themselves. Moreover, these studies also show that such interest-discourse is not 'just talk' but rather has material outcomes for scientific knowledge production itself, such as what research gets published and what gets funded. We therefore urge future research to examine how the actors involved in creating and using accounting knowledge-products attribute and manage interests in ways that have practical outcomes for those involved.

To sum up, we have sought to advance scholarship on the role of accounting in the social construction of reality (Morgan, 1988; Hines, 1988) and the role of accountancy as a legitimating institution (Richardson, 1987) by developing a theoretical framework for analysing how interests are handled in discourse. The EDA framework enables us to study how interests are discursively ascribed, and also discounted, distanced from or disavowed in order to present the accountancy profession as factual, neutral, objective and dis-interested (Potter, 1996). In so doing, we have sought to develop links to a broader body of work on the study of professions and the social construction of knowledge. Drawing on work that shows how scientific knowledge is constructed or discounted on the basis of accounts of who had (or did not have) an interest, stake or motive in its production (Woolgar, 1981; Callon and Law, 1982; Gilbert & Mulkay, 1984), we have shown that the presumed credibility and reliability of the knowledge-products of the accountancy professions (e.g. accounts, audits) rests on accounts of the role of interests in their production.

The Big Four cannot be trusted, according to the conclusions of the inquiry we have studied, to be ‘above the fray’ and transcend vested interests when undertaking audit work. Hence, according to this interest-based reasoning procedure, intervention is necessary to ensure interests do not ‘pollute’ the rigour and independence of audits. In short, then, we have shown how the discursive strategies for handling interests were consequential for the regulation and governance of the accountancy profession. To conclude, we argue that interest discourse comprises an important *strategy of legitimacy* (Suddaby and Greenwood, 2005). Interest discourse therefore forms an important component of the institutional work - “the broad category of purposive action aimed at creating, maintaining and disrupting institutions” (Lawrence & Suddaby, 2006: 216) - that is required when a field is under threat. Thus, we propose that the EDA approach can also be used to study the material outcomes of interest-discourse for professions such as accountancy.

Key Issue	Summary of Conclusions/Recommendations
Concentration in the audit market	<ul style="list-style-type: none"> • Audit market both in UK and internationally is dominated by oligopoly; • Dominance of Big Four limits competition and choice; • Loss of one of the Big Four would further restrict competition and choice, and steps should be taken to avoid this (Office of Fair Trading investigation recommended).
Legislative/regulatory framework governing audit	<ul style="list-style-type: none"> • Attempts to date to increase competition have failed, including the recommendations of the 2007 Financial Reporting Council's Market Participants Group; • Measures proposed by Ministers and politicians within the inquiry do not go far enough, and current proposals are not expected to have the desired effect of increasing transparency and disclosure, or increasing competition and choice; • Mandatory joint audits would enhance competition, but also increase bureaucracy and cost;
Professional regulation and standards	<ul style="list-style-type: none"> • Regulation of accounting and audit is fragmented across a number of professional bodies, leading to unwieldy and overlapping organizations and functions; • Model of other professions such as medicine which operates under a single body, the General Medical Council, should be followed; • Wider powers sought by Financial Reporting Council would simplify and streamline current situation; • Further rationalisation and reform is needed, and Government should be ready to impose a solution if the

	<p>profession is unable to produce rapid progress;</p> <ul style="list-style-type: none"> • Global adoption of IFRS has delivered benefits, but also risk of reducing quality and prudence: IFRS offers less assurance and is unable to account for expected losses, made apparent by failures in bank audits; • Profession, regulators and Government should seek ways to promote traditional prudent scepticism;
Bank audits and the financial crisis	<ul style="list-style-type: none"> • Auditors should not be inhibited from qualifying accounts on basis of anticipated effect on shareholders or wider financial system; • Bank auditors may have properly undertaken their duties in the strictly legal sense, but did not undertake their duties effectively in a wider sense of exercising prudent and thorough judgement; • The defence put forward by bank auditors is disconcertingly complacent and suggests a need for external intervention; • Auditors should not be permitted to assume that a future bail out by authorities and tax payers can be considered in making a going concern judgement; • Dialogue between the Big Four and regulatory authorities was insufficient and constitute a dereliction of duty by both parties; • The proposed Bank of England/FSA Code of Practice is a welcome move, but requires statutory obligation to be effective; • While there was no single cause of the banking crisis, and banks have themselves to blame, the complacency of bank auditors was a significant contributory factor.
Main recommendations	<ul style="list-style-type: none"> • Detailed investigation of audit market by Office of Fair Trading, examining (a) restricted bank covenants, (b)

	<p>unlimited legal liability for claims against client damages, (c) what non-audit services should be banned, (d) provision of broader information and assurance to investors within audits, (e) reductions in audit requirements for smaller firms, (f) limits on share ownership affecting ability of non-Big Four audit firms to grow, and (g) recommendation on need for inquiry by Competition Commission;</p> <ul style="list-style-type: none"> • Government should not extend IFRS beyond existing mandatory large listed companies, with continued use of GAAP permitted elsewhere, enabling a viable alternative system to be maintained. • Regular mandatory tendering of audit contracts would increase competition and choice, with the recommendation that FTSE 350 companies carry out a mandatory contract tender every 5 years; • More investor dialogue and involvement is needed, with the recommendation that audit committees should hold discussions with principal shareholders every five years, that published reports of audit committees should detail any significant financial reporting issues and the basis of the decision of audit tendering and choice, with FRC's governance codes amended accordingly; • The Government should encourage the emergence of a new competitor that could result from the expected abolition of the Audit Commission, promote the introduction of 'living wills' for the Big Four upon event of collapse, promote greater prudence and better valuation of complex financial instruments within or beyond current IFRS, and make greater efforts to enable non-Big Four firms to win public sector work; • Banks and other large financial institutions should have separate risk committees, independent of the company's auditor, but a duty of the auditor to ensure it is done (or a qualification to the audit judgement if it is not done); • Blanket ban on non-audit work not justified, however auditors should be banned from internal audit and tax advisory services to risk committees of the client firm. • New framework of banking supervision should be introduced to enable greater stability and transparency for the
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	financial system.
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Table 4 – Overview of final report “Auditors: Market concentration and their role”, published by the House of Lords, 30 March 2011.

Actor	Role	Date of response	Key Points
Government	Political oversight and regulation of accountancy profession	16 th June 2011	<p>Auditing is dominated by an oligopoly that limits competition and choice.</p> <p>Loss of one of the Big Four would be unacceptable because it would further restrict competition and choice.</p> <p>Existing attempts to introduce greater competition and choice have failed, including the 2007 recommendations by the Financial Reporting Council.</p> <p>The Government shares the Committee’s skepticism of mandatory joint audits, for adding bureaucracy and cost.</p> <p>The Government agrees that more regular tendering would promote greater competition, with benefits for cost and quality, but that mandatory tendering can cause excessive cost if too frequent, or fail to ensure its objectives if too infrequent.</p> <p>The Government recommends that the frequency of mandatory tendering should take account of the size and complexity of the company.</p> <p>The largest companies should report every year who has been appointed, how long</p>

			<p>they have been in post and when the last tender was conducted.</p> <p>The Government will support the Department for Business, Innovation & Skills consultation for reform of narrative reporting and Financial Reporting Council's amendments to the Corporate Governance and Stewardship Code.</p> <p>The Government will consider the transfer of the Audit Commission to the private sector to form a new competitor to the Big Four and the opening of public sector audit work to the private sector.</p> <p>The Office of Fair Trading will be asked to investigate whether unlimited legal liability, limits on shareholdings by non-auditors in audit firms, restricted bank covenants and other clauses in lending arrangements are restricting competition.</p> <p>Separate risk committees for banks and other similar financial organizations are desirable, but for each organization to decide their nature and scope.</p> <p>The Government does not agree that auditors should be banned from providing advisory services, where they do not breach the Auditing Practices Board's Ethical Standards. Auditors should not be prohibited from providing services or advice to risk committees, where the auditor is best placed to highlight risks relating to the business or business model.</p> <p>The Government is pressing the European Commission to reduce or remove the audit requirement on medium-sized companies, in order to lower regulatory costs.</p> <p>Proposals will be put forward to improve company reporting information provided to shareholders.</p>
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Financial Reporting Council	UK independent regulator of corporate reporting, actuarial practice, accounting and audit standards	30 th June 2011	<p>EASC report is to be welcomed and many recommendations are in line with the FRC’s recent paper <i>Effective Company Stewardship</i>. Referral to the OFT is welcomed.</p> <p>Abolition of the Audit Commission is opportunity to increase competition.</p> <p>Mandatory discussions with shareholders on choice of auditor (as recommended by EASC) is controversial and has widespread opposition. Dialogue with principal investors may breach the legal requirement to treat all shareholders equally. Thus, we propose instead a fuller audit committee report with expectation of audit tendering every 8-10 years, on a ‘comply or explain’ rather than legislative compulsion.</p> <p>There is little support for mandatory Risk Committees outside the financial sector. The FSA should be responsible for setting rules in this area rather than FRC. However, the FRC is reviewing the need for updating the Turnbull Guidance (<i>Internal Control</i>:</p>

			<p><i>Guidance for Directors on the Combined Code, 1999).</i></p> <p>FRC supports the introduction of living wills and will work with the Department for Business, Innovation and Skills and firms to develop this initiative.</p> <p>FRC support the need for reform of fragmented and overlapping regulatory and oversight organizations, and need for full independence from the profession. Proposals for FRC reform will be published shortly.</p> <p>FRC are working on provisions for incorporating prudence and skepticism in audit behavior and standards, in collaboration with the Auditing Practices Board, Accounting Standards Board and the Audit Inspection Unit (the FRC's inspection body).</p> <p>FRC agree that auditors should not be allowed to give advice to risk committees of companies they audit. An APB consultation in 2009 has led to the Ethical Standards for Auditors amending the limits to circumstances in which auditors may provide tax advisory services to the companies they audit and revision of the disclosure requirements of the types and amounts of non-audit services provided, with effect from December 2011.</p>
Office of Fair Trading	UK independent consumer protection and competition authority	21 st October 2011	<p>OFT has been concerned for some time about the high concentration of the audit market, low levels of switching and barriers to entry.</p> <p>OFT has referred the audit market to the Competition Commission for further investigation.</p>
Jonathan Faull	Director General, Internal Market & Services, EU	7 th February 2012	<p><i>Oral evidence given to Economic Affairs Select Committee.</i></p> <p>Proposals to improve communication, on the part of regulators to communicate with</p>

	Commission		<p>auditors and duty on auditors to report concerns with regulators, are to be put forward for debate to the European Parliament and Council of Ministers. However, no mandatory duty is proposed.</p> <p>Auditors have, and will continue to have, a statutory duty under European law to report to banking supervisors breaches of the law and refusals to certify financial statements.</p> <p>Four big players represents an oligopoly and incentives are needed to create more competition.</p> <p>Measures to improve market concentration have been proposed, including the European quality certificate, incentives for joint audit, the prohibition of Big Four-only clauses, and the requirement for a non-Big Four firm in all mandatory tendering.</p> <p>Enforced changes to the market structure (e.g. enforced break-up) are only within the jurisdiction of competition authorities. The European competition authority has no such power to oblige Member States, but steps taken therein are welcomed.</p>
Lord MacGregor	Chairman of Economic Affairs Select Committee, House of Lords	8 th February 2012	<p><i>Letter to Norman Lamb MP, Minister for Employment Relations, Consumer and Postal Affairs.</i></p> <p>Recommended investigation by Competition Commission.</p> <p>Evidence from Mr Tim Bush expressed concerns that replacement of UK GAAP with IFRS weakened the 'true and fair picture' standard and replaced with 'rule-compliant, tick-box' approach (letter from Tim Bush enclosed).</p> <p>Andrew Haldane of the Bank of England seems to agree with this view of IFRS. However, the testimony of Ed Davey (previous Minister for Employment Relations,</p>

			<p>Consumer and Postal Affairs) to the EASC affirmed that IFRS was in conformity with UK law requiring a true and fair view.</p> <p>We request that the Department for Business, Innovation and Skills examines the question of IFRS and its conformity with UK law.</p>
Norman Lamb (MP)	Minister for Employment Relations, Consumer and Postal Affairs, Department for Business, Innovation & Skills	29 th February 2012	<p><i>Response to letter from Lord MacGregor (above).</i></p> <p>I can confirm that IFRS is in conformity with UK law.</p> <p>Two separate issues should not be conflated: whether directors have ensured the capital maintenance regime has been observed, and the legal requirements to prepare true and fair accounts in accordance with IFRS.</p> <p>The issue of whether dividends should be paid out of profits that have been subsequently invested in illiquid assets. The Government has requested a review of the capital maintenance regime at EU level and the European Commission has launched a consultation on the Future of Company Law on 20th February 2012.</p> <p>The Government recognizes that improvements are needed to auditing of banks following the financial crisis. The IASB is taking steps to implement revisions to the international valuation standards for complex financial instruments, along with meeting the G20 expectation of harmonization with US GAAP, with a view to implementation in 2015 onwards.</p> <p>We await the conclusions of the Sharman panel, the FRC enquiry into Going Concern chaired by Lord Sharman of Redlynch, into the question of whether a distinct – and more prudent - accounting regime should be established for banks.</p>

Tim Bush	Head of Governance, Pirc (investor lobbyist), former member of Accounting Standards Board	7 th March 2012	<p>The issues raised by my evidence to the Economic Affairs Select Committee has not been adequately addressed by the Minister, Norman Lamb.</p> <p>I believe there is a gap between what the IFRS is requiring companies to do and the 'true and fair view' principle of the law, as laid down in the Companies (Amendment) Act (1947) and Companies Act (1948), which was carried into EU law in 1978, specifically in relation to prudence in (a) not overstating assets, and (b) not understating liabilities. IFRS fails to ensure both of these.</p> <p>The audit field suffers from regulatory capture, at UK and European levels, which has led to resistance to changes to IFRS and failure to properly protect investors and creditors.</p> <p>A genuine 'true and fair view' accounting model leaves negligent auditors open to litigation, which explains why the profession has successfully argued against its incorporation into IFRS. The FRC itself has had close relationships with auditor defense lawyers.</p> <p>The roll-out of IFRS in banking parallels the swathe of banking collapses in the EU. Member states such as France have rejected IFRS for precisely the reason that they fail to provide a true and fair view.</p>
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Table 5 – Overview of responses to Select Committee report and recommendations by the key institutional actors and regulators

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